

# **EXHIBIT 31**

**Written Testimony Of  
National Pork Producers Council**

**On**

**State of the U.S. Pork Industry**

**House Committee on Agriculture  
Subcommittee On Livestock,  
Rural Development and Credit**

**April 30, 2014**

### **Introduction**

The National Pork Producers Council (NPPC) is an association of 44 state pork producer organizations that serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 69,000 pork producers marketed more than 111 million hogs in 2013, and those animals provided total gross receipts of \$15 billion. Overall, an estimated \$21 billion of personal income and \$35 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of nearly 35,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 111,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the United States.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 20 of the past 22 years. In 2013, the United States exported more than \$6 billion of pork, which added about \$54 to the price that producers received for each hog marketed. Net exports last year represented almost 26 percent of pork production. The U.S. pork industry today provides 23 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

### **A Permanent Shift for Costs, Lower Numbers of Canadian Pigs**

At beginning of 2014, the U.S. pork industry had lost money in four of the past years, including two of the three worst years on record in 2008 and 2009. After some recovery in 2010 and 2011, record-high feed costs in 2012 and early 2013 pushed producers' cumulative profits to their lowest point since late 2004. Now porcine epidemic diarrhea virus (PEDv) and potential trade actions by two of our largest export markets have cast a cloud over the industry.

The losses incurred since 2007 began with the initial run-up of feed ingredient prices that resulted from rapidly rising ethanol production capacity. That capacity development was hastened by federal biofuels policy that included rising levels of mandated ethanol usage. Breakeven hog production costs rose to a then-record \$57 per hundred pounds (cwt.) of carcass weight – live \$76/cwt. – in 2008 as corn prices hit then-record highs. Those high costs of production were complicated for producers by record-high hog supplies in 2008, the result of slight breeding herd growth and the 2007 introduction of circovirus vaccines that allowed many more pigs to survive to market age and weight. Doing what was clearly the right thing for animals' well-being had significant negative economic consequences for producers.

The losses of 2008 and 2009 led to a significant reduction in U.S. hog slaughter in subsequent years. Part of that decline in numbers was because of a liquidation of part of the U.S. breeding herd because of financial losses. The U.S. breeding herd fell by 455,000 head (7.3 percent) from December 2007 through December 2010, and, despite rapidly rising productivity, the U.S. pig crop declined from a record-high 115 million head in 2008 to just 113.7 million in 2010.

At the same time, U.S. market hog production declined because of a sharp reduction in the number of weaner and feeder pigs imported from Canada, which fell from just over 7 million head in 2008 to just 4.7 million head in 2010. That decline was driven by two factors whose relative importance is very difficult to determine.

First, the value of the Canadian dollar relative to the U.S. dollar increased sharply, making Canadian producers less competitive with their U.S. counterparts. That factor plus the same higher feed costs faced by U.S. producers caused Canadian hog numbers to decline. Fewer hogs in Canada left fewer pigs to be exported to the United States.

The second factor was mandatory country-of-origin labeling, or MCOOL. Though the program began officially in September 2009, it caused adjustments in Canadian output well before that date as U.S. hog finishers sought domestic sources of feeder pigs to avoid the costs and complications of feeding and marketing Canadian pigs, which most expected and eventually realized.

Finally, U.S. hog slaughter also was reduced because of an MCOOL-driven decline in Canadian hogs shipped directly to the United States for slaughter. Those numbers fell from 3.28 million in 2008 to just 1.14million in 2010, and those hogs, in particular, were affected by MCOOL since the product from them was required to be completely segregated from product derived from pigs fed in the United States.

Total U.S. commercial hog slaughter fell by 6.193 million head (5.3 percent) from 2008 to 2010 because of these various reductions in the number of hogs available to U.S. packers. A primary and completely foreseen consequence of these lower hog numbers was a reduction in total U.S. pork packing capacity. That consequence was realized in April 2010 with the closure of the John Morrell plant in Sioux City, Iowa. The plant had long been considered vulnerable because of its lack of further-processing facilities and downtown location near the former site of the Sioux City Stockyards, which closed in 2002. It was particularly vulnerable to MCOOL-related reductions in Canadian imports because of it being one of the northernmost and westernmost plants in the United States. Its sister plant in Sioux Falls, S.D., processed a significant number of imported Canadian market hogs and U.S. market hogs produced from Canadian-born pigs. When the number of those pigs declined, there simply were not enough hogs available in the North-Central United States to maintain the pre-2010 level of packing capacity. The closure cost 1,500 jobs.

That reduction of capacity remains a potential limiting factor for the U.S. pork industry today. The high feed prices of 2012-2013 and, now, PEDv have reduced U.S. hog numbers enough that the current total capacity of 444,320 head per day will not be challenged either this year or next. But the United States is the world's low-cost producer of finished pork products, meaning that there is ample potential for long-run growth. A return of market hog numbers to the level of 2008 would result in weekly slaughter numbers that exceed the nation's MCOOL-reduced packing capacity. Should that happen, very low hog prices would result.

**Clock Runs Out On U.S. Crop Weather in 2012**

Two years of marginal profitability in 2010 and 2011 were followed by another period of losses, this time driven by the first significant drought to hit the Cornbelt since 1988. The combination of sharply lower corn and soybean yields and very low corn and soybean reserves pushed prices and hog feed costs to new record highs. The average breakeven cost for Iowa farrow-to-finish operations modeled by Iowa State University hit \$90.89/cwt carcass in 2012 and \$93.95/cwt. carcass in 2013. Those compare with \$52.76/cwt. from 1999-2006 before the advent of biofuels policy and roughly \$70/cwt. in 2009 and 2010 after the original grain price adjustments to biofuels production growth mandated by the federal energy acts of 2005 and 2007.

U.S. producers had begun a herd expansion in early 2012 following marginally profitable years in 2010 and 2011. That expansion was slowed by the losses of 2012 and 2013 but not completely stopped as producers correctly judged the drought-induced high grain prices and hog production costs to be temporary. A record-large U.S. 2013 corn crop has now pushed production costs back near \$80/cwt – still high by long-term historical standards but much more reasonable than the record levels of 2012 and 2013.

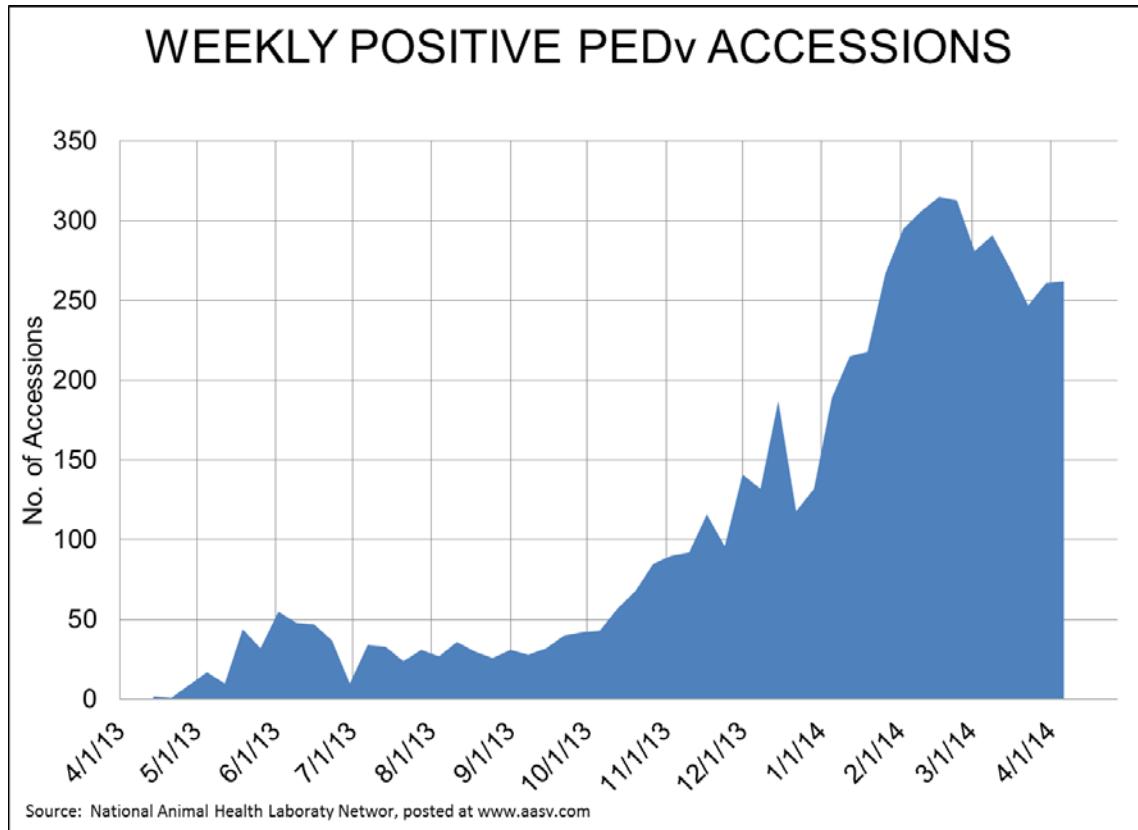
**New Threats**

The latest threats to the U.S. pork industry are serious indeed, especially since solutions to both are still not certain. The most pressing threat we face today is PEDv, a devastating disease that has now spread to 30 states. PEDv's biggest impact is among pigs up to three weeks of age, where death losses are almost always near 100 percent. USDA's March 28 quarterly Hogs and Pigs Report estimated that PEDv has thus far killed roughly 2 million head. A far more accurate estimate from U.S. pork industry economist Steve Meyer is 7 million head, which is based on anecdotal but dependable estimates that roughly 2.6 million sows have been infected and that each has lost, on average, 2.7 piglets.

Those death losses began in the spring of 2013 in scattered sow farms in the Cornbelt but became significant in May and June 2013 in the Oklahoma Panhandle. Subsequent breaks in large numbers of sow farms in North Carolina began in August and September. Large numbers of Cornbelt sow farms began to break with PEDv in November and December, and the number of positive case accessions, which veterinarians consider an accurate gauge of disease activity, to animal health diagnostic labs exploded after the beginning of 2014. (See Figure 1.)

Using the number of positive case accessions for suckling pigs to distribute the estimated loss of 7 million pigs from June 2013 through March 2014 suggests that slaughter reductions this summer could be greater than 10 percent, relative to last year's levels. Higher market weights – because of lower feed costs and the industry's efforts to offset some degree of PEDv pig losses – would offset 3 to 4 percent of that reduction, but U.S. pork production would likely be down 6 to 8 percent in the third quarter. Such a reduction would push U.S. hog prices up by 15 to 25 percent and force consumer-level pork prices upward by 10 to 12 percent.

Figure 1



The irony of this situation is that pork producers could benefit economically from PEDv losses because of the inelastic nature of pork and hog demand. That inelastic demand structure should cause prices to rise by a greater percentage than production declines, meaning total revenue for the pork industry would grow this year. When combined with lower costs of production, the pork industry could enjoy perhaps its best year ever financially, and producers – even those who lose pigs to PEDv – likely would see their best individual years ever, as well. The only exceptions to this success would be producers who farrow less frequently than once every two months and lose one or more farrowing groups of pigs to PEDv. Those operations may see output fall by a greater percentage than prices increase, thus reducing total revenue.

But let no one be deceived that pork producers are happy about this situation even if it results in economic benefits. The U.S. pork industry's deep concern over PEDv is two-fold.

First, U.S. pork producers are in the business of creating and maintaining living, healthy animals. That is, in essence, their calling as producers. Losing millions of pigs to this disease hurts them to the very core and actually signifies that they have profoundly failed to live up to that calling. Producers and their dedicated employees take these losses personally, and they hurt deeply. Producers talk about their PEDv experiences using terms such as “devastating,” “heartbreaking” and “gut-wrenching” when describing the disease’s impact on themselves, their family and their employees.

Second, U.S. pork producers are very concerned about the impact of PEDv on their customers and others who depend on the pork industry. Retail pork prices already hit a new record high in March and most likely will rise even higher this summer and fall. That means that some customers, both at home and abroad, will be unable to afford delicious, wholesome pork products. In addition, reduced hog numbers mean less feed, less medicine, fewer veterinary services and shortened hours at packing and processing plants. All of these dynamics reduce wages and profits generated by allied businesses. And since many of these businesses are located in small- to mid-sized rural communities, this will have a significant negative impact on the nation’s rural economy.

So what needs to be done about PEDv?

First and foremost, it still is not known how PEDv entered the United States. The pork industry has good evidence that two distinct strains of PEDv were introduced along with another virus called porcine deltacoronavirus. The pork industry needs USDA to conduct a thorough investigation on the pathway these viruses used to gain entry into the U.S. swine herd. The agency should cooperate with the U.S. Food and Drug Administration, the Department of Homeland Security and other appropriate agencies in that investigation.

While the U.S. pork industry has committed nearly \$2 million to research PEDv, it needs the USDA Agricultural Research Service to bring significant resources to bear on this disease. This research needs to focus on the basics of viral propagation, pathogenesis and control. Development of a vaccine is only one of several important needs for getting PEDv under control.

The pork industry also needs the National Animal Health Laboratory Network (NAHLN) to have the ability to efficiently and electronically communicate and generate the data needed to understand and respond to PEDv and deltacoronavirus. The information also needs to be available for real-time, appropriate analysis. NAHLN's information technology and intellectual property issues should not be a barrier to enhanced inter-laboratory communication and data sharing.

USDA's ability to implement a coordinated surveillance program should be enhanced. Recently, Secretary Vilsack announced an order to require reporting of PEDv. While knowledge of disease prevalence and movement are important in understanding the epidemiology of this disease, USDA needs to take a thoughtful and measured approach to development of a strategy that is practical, workable and has the potential to be successful. The pork industry is willing to work with USDA to move forward on these issues.

The second pressing threat for the U.S. pork industry is looming trade sanctions from Canada and Mexico over the U.S. mandatory country-of-origin labeling law. While the Obama administration's most recent effort to satisfy the World Trade Organization (WTO) is still under challenge by the two countries and awaiting a decision from a WTO dispute resolution panel, the U.S. pork industry believes it is very likely that decision will be unfavorable for the United States. This means both Canada and Mexico would be free to impose tariffs on a large array of U.S. products as soon as this year. While NPPC's foremost concern is for U.S. pork products, this subcommittee, along with the entire House Agriculture Committee and the House of Representatives must heed the fact that the sanctions would hit many more U.S. sectors than pork, or even agriculture. Items targeted by Canada and Mexico for retaliation include, for example, maple syrup, wine and manufactured goods.

Can the U.S. economy's fragile recovery withstand a broad-based hit on exports to two of the country's largest trading partners? While such action may not trigger another recession, it very likely will damage the economy and hurt the many hard-working families that depend on trade with Canada and Mexico for their livelihoods. The impact of any tariffs will go far beyond the boardrooms of the affected companies.

NPPC is, of course, most concerned about pork producers, who could see prices fall by roughly \$2 per hundred pounds of carcass weight should tariffs actually be imposed. That reduction would reduce producer revenues by \$400 million per year.

NPPC encourages Congress to consider a legislative solution to the WTO case that satisfies America's trade obligations under the WTO and avoids retaliation.

### **Other Issues of Concern**

In addition to the challenges posed by MCOOL and PEDv, U.S. pork producers are watching several other matters that could be problematic.

#### **DOT Hours of Service Rule**

July 1, the U.S. Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) issued a final rule that requires truck drivers to take a 30-minute rest break for every eight consecutive hours of service. For drivers hauling livestock, the hours of service would include time loading and unloading animals.

NPPC, along with 13 other livestock, poultry and food organizations, petitioned the FMCSA for a 90-day waiver, which was granted, then a two-year exemption from complying with the rule. The groups argued that the rule would place the health and welfare of livestock at risk, particularly during times of the year with warm temperatures, and would provide no increased benefit to public safety – and likely would decrease public safety – while forcing the livestock industry and its drivers to choose between the humane handling of animals and complying with the FMCSA regulation.

Additionally, the livestock industry already has programs – developed and offered under the oversight of the U.S. Department of Agriculture – that educate drivers on transportation safety and animal welfare.

Because FMCSA has not decided whether to grant the industry an exemption from the rule, NPPC and other organizations are filing a petition to the agency for an emergency 90-day waiver to begin June 1 when summer temperatures start to rise. If FMCSA fails to eventually grant a waiver, NPPC intends to begin filing similar petitions every 90 days in order to protect the welfare of the animals in our control.

### **U.S. Dietary Guidelines**

Every five years, USDA is required to update the U.S. Dietary Guidelines for Americans, which encourage people to focus on eating a healthful diet, providing evidence-based nutrition information and advice for those age 2 and older. They serve as the basis for federal food and nutrition education programs, including the School Breakfast and Lunch programs.

NPPC in March submitted written comments to the 2015 Dietary Guidelines Advisory Committee (DGAC) and to USDA and the Department of Health and Human Services, which requested input on steps the food industry must take to maintain food safety, to ensure sustainability and to reduce sodium, added sugars and fats in the food supply. NPPC supports DGAC's work to develop "nutritional and dietary information and guidelines for the general public ... based on the preponderance of scientific and medical knowledge ..."

But NPPC is concerned that the DGAC is addressing issues outside its purview and scope of expertise and that politics and public opinion rather than sound science and medical knowledge could be used to set recommendations and, in the case of federal feeding programs, to set policy that limit or restrict certain foods.

Additionally, there already exist groups working to better understand, for example, sustainability in food production, one of the areas into which the committee has delved.

[America's pork producers are among the most environmentally and socially conscious food producers in the world, and they have worked to improve diets and enhance breeding practices to raise leaner, healthier pigs to meet the demand for quality pork with less fat.]

The committee should remain committed to its mission of providing “independent, science-based advice and recommendations for development of the Dietary Guidelines for Americans, 2015” and not use its limited funding and nutritionally focused expertise on non-nutritional criteria to determine winners and losers among the country’s food producers.

### **Conclusion**

The U.S. pork industry is the lowest-cost producer and No. 1 exporter of pork in the world, and U.S. pork producers continue to produce the most abundant, safest, most nutritious pork in the world. They have proved very resilient, weathering financial crises and diseases as well as the vagaries of a supposedly-free market economy pushed and pulled in various directions by government intervention and regulation, while investing in and adopting new technologies that have promoted animal health, protected the environment and added thousands of jobs and billions in national income to the American economy.

To enable pork producers to continue as leaders in the global and domestic economies, the U.S. pork industry urges Congress and the administration to pursue federal policies and regulations that support U.S. pork production rather than hinder its ability to continue to produce safe, lean and nutritious pork and pork products for the global marketplace.